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STATE FOR EUR/SE AND EB/IFD
TREASURY FOR INTERNATIONAL AFFAIRS - J.ROSE

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TAGS: ECON EFIN TU
SUBJECT: CITIGROUP TO PURCHASE STRATEGIC STAKE IN TURKEY'S
THIRD LARGEST BANK

This cable was coordinated with Embassy Ankara.

¶1. (SBU) Summary. Citigroup's October 17 announcement that it intends to purchase a 20% share of Turkey's most profitable retail/commercial bank heralds the largest direct foreign investment in Turkey's financial sector. Valued at $3.1 billion, the deal pairs Citigroup with Akbank, Turkey's third largest bank. According to Citigroup Turkey Managing Director Steve Bideshi the decision to take a strategic stake in a large bank rather than take over a smaller, weaker bank was influenced by Turkey's history of extreme market volatility. Bideshi expects the deal to be final by the end of the calendar year. End Summary.

¶2. (U) On October 17, Citigroup announced its intention to purchase a 20 percent equity share in Akbank. Valued at $3.1 billion this is the biggest FDI deal thus far in Turkey's financial sector. Akbank, a full-service retail/commercial bank controlled by the Sabanci family and Sabanci Holding, is Turkey's third largest bank in terms of assets ($35.8 billion) and the country's most profitable banking institution. Sabanci Holding owns 34 percent of Akbank shares and will retain a controlling interest. Citigroup is paying a 16.5% premium over the market value of the Akbank shares. The deal brings the percentage of foreign ownership in Turkey's banking sector to 21.9%, following a wave of foreign purchases of stakes in Turkish banks.

¶3. (SBU) Citigroup has been planning to expand in retail banking in Turkey for over a decade. In the mid-nineties Citibank showed interest in Osmanli Bank but lost the deal to Garanti Bank. In the intervening years, Citibank was widely believed to be interested in acquiring several small or medium sized Turkish banks however these rumors were never confirmed publicly. Citibank officers have discussed unsuccessful takeover plans with us in the past without mentioning specific takeover targets. During a meeting three years ago the then Citibank country manager told us that takeover plans had been frozen by corporate headquarters as a result of investigations into the Arthur Anderson scandal thus stalling expansion plans in Turkey. More recently, Citigroup lost out to National Bank of Greece in a bidding battle over Finansbank.

¶4. (SBU) Citigroup's Turkey Managing Director Steve Bideshi has been bullish on Turkey, noting to us that Turkey compares favorably to the BRIC countries (Brazil, Russia, India, China) in terms openness of the financial sector and investment opportunities. Bideshi told us that Citigroup agreed to acquire 20% of Akbank in a negotiated deal that will enable both Akbank and Citigroup Turkey to exploit the

strengths and best practices of the other side. For instance, Citibank has a fairly small branch network in Turkey with only 54 branches while Akbank has over 600 branches. Although noting that many details had not been negotiated, Bideshi opined that through this partnership Citigroup would be able to market international-type products through the Akbank branch network. Citigroup intends to retain its branch network in Turkey and will compete with Akbank "when we have to" according to Bideshi but will collaborate whenever possible.

¶5. (SBU) Bideshi noted that there had been some degree of surprise when Citigroup announced that it would take a 20% share of one of Turkey's largest banks rather than making a complete takeover of a smaller bank. Although there is a mechanism for Citigroup to increase its ownership share built into the deal, Bideshi explained that he believed that the days of the 100% takeover were over. Without absolute certainty with regards to returns 100% takeovers are too risky, particularly of a structure the size of Akbank. Plus, given Turkey's history of extreme volatility taking a strategic stake in a bank that had withstood volatility well in the past was a better bet, he explained.

¶6. (SBU) Despite an official estimate of 60-90 days of review by regulatory agencies in both the U.S. and Turkey, Bideshi does not expect the review by regulatory agencies to delay the finalization of the deal beyond the end of the year. His October 17 discussions with the Banking Regulatory and Supervision Agency (BRSA) and Central Bank in Ankara were quite positive. Furthermore, Sabanci Holding, which must register the sale of shares, has assured him that the Capital Markets Board is unlikely to object to the sale.

¶7. (SBU) Comment: The sale is striking in several respects: it demonstrates the continued interest in financial sector

acquisitions by foreign direct investors and will help keep FDI numbers for 2006 (or perhaps 2007) high by historical standards. It is also the third large direct investment by a U.S.-based group in the past year. On the other hand, Citigroup's concerns about Turkish volatility and therefore its willingness to accept less than a controlling stake are indicative that despite the recent wave of FDI, risks and concerns remain for foreign direct investors, particularly for those without a local partner.
JONES